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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 11 AM EDST
JULY 20, 1973

STATEMENT OF
CHARLES D. HYLANDER, DEPUTY DIRECTOR
INTERNATIONAL DIVISION
BEFORE
SENATE SUBCOMMITTEE ON
MULTINATIONAL CORPORATIONS
COMMITTEE ON FOREIGN RELATIONS

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, WE ARE
PLEASED TO APPEAR HERE TODAY TO DISCUSS OUR REPORT, ISSUED TO
THE SUBCOMMITTEE ON JULY 16, CONCERNING THE MANAGEMENT OF
INVESTMENT INSURANCE, LOAN GUARANTEES AND CLAIM PAYMENTS BY
THE OVERSEAS PRIVATE INVESTMENT CORPORATION.

WE WILL BRIEFLY SUMMARIZE THIS MORNING THE HIGHLIGHTS OF
OUR REPORT. IN ADDITION, THE GENERAL ACCOUNTING OFFICE ALSO
MAKES AN ANNUAL REVIEW AND REPORT TO THE CONGRESS ON THE

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FINANCIAL STATEMENTS OF OPIC. OUR MOST RECENT REPORT ON THE FINANCIAL STATEMENTS WAS ISSUED ON JUNE 13, 1973.

ELIGIBILITY FOR COVERAGE

IN JUDGING THE MERITS OF A PROJECT FOR INSURANCE, OPIC RELIES IN LARGE PART ON INFORMATION PRESENTED IN THE FORMAL INSURANCE APPLICATION, SUPPLEMENTED BY COMMENTS FROM THE U. S. EMBASSY OR MISSION IN THE HOST COUNTRY.

DURING 1972 OPIC ISSUED NEW GUIDELINES PROVIDING FOR ANALYSIS OF THE DEVELOPMENTAL IMPACT ON THE HOST COUNTRIES OF ALL PROJECTS INVOLVING \$1 MILLION OR MORE OF OPIC INSURED INVESTMENT. THESE GUIDELINES, IF PROPERLY IMPLEMENTED, SHOULD PROVIDE OPIC WITH MORE INFORMATION FOR ASSESSING THE DEVELOPMENTAL EFFECTS OF PROSPECTIVE PROJECTS. THE PROJECTS TESTED BY US IN OUR REVIEW APPEARED TO MEET THE ELIGIBILITY REQUIREMENTS FOR OPIC COVERAGE.

RISK MANAGEMENT

OPIC IS NATURALLY CONCERNED WITH ITS VULNERABILITY TO CATASTROPHIC LOSSES. THE POTENTIAL FOR SUCH LOSSES IS CONTINGENT ON THE CONCENTRATION OF INSURANCE BY COUNTRY AND INDUSTRY, AND THE SIZE AND FORM OF INVESTMENTS INSURED BY OPIC. OPIC'S EFFORTS TO REDUCE ITS RISK HAVE INCLUDED:

- REQUIRING COINSURANCE WITH INVESTORS;
- ENCOURAGING PARTICIPATION OF FOREIGN NATIONALS AND ORGANIZATIONS IN INSURED PROJECTS;
- MODIFYING CONTRACTUAL TERMS; AND
- SEEKING TO INCREASE THE NUMBER OF COUNTRIES PARTICIPATING IN THE INSURANCE PROGRAM.

OPIC IN JANUARY 1971 ASSUMED AN INSURANCE PORTFOLIO THAT HAD LARGE CONCENTRATIONS IN A FEW COUNTRIES AND INDUSTRIES. SINCE THE INSURANCE CONTRACTS WERE GENERALLY WRITTEN FOR 20 YEARS, CERTAIN CONCENTRATIONS WILL PERSIST FOR MANY YEARS IRRESPECTIVE OF OPIC'S UNDERWRITING PRACTICES.

OPIC HAS LIMITED INSURANCE COVERAGE GROWTH IN COUNTRIES WHERE CONCENTRATION IN ANY ONE CATEGORY OF INSURANCE EXCEEDED 10 PERCENT OF WORLDWIDE COVERAGE FOR THAT CATEGORY. OPIC HAS ALSO SET SPECIFIC LIMITS OF COVERAGE FOR NEW INSURANCE IN KOREA AND JAMAICA. THE EFFECT OF THESE MEASURES HAS BEEN TO DISPERSE OPIC'S INSURANCE COVERAGE ON A WIDER GEOGRAPHIC BASIS.

THE OPIC PORTFOLIO IS ALSO MORE EVENLY DISTRIBUTED AMONG THE VARIOUS INDUSTRIES THAN WAS THE PORTFOLIO IT ASSUMED. IN THE INITIAL PORTFOLIO 42 PERCENT OF OPIC'S COVERAGE WAS CONCENTRATED IN TWO INDUSTRIES, METAL MINING AND MANUFACTURING OF CHEMICAL AND ALLIED PRODUCTS; THE PERCENTAGE FOR THESE INDUSTRIES HAS NOW DECLINED TO 29 PERCENT. FURTHER, OPIC HAS AVOIDED ADDITIONAL INSURANCE OF MINING AND EXTRACTIVE INDUSTRY PROJECTS BECAUSE THEY ARE GENERALLY CONSIDERED HIGH RISK.

NONETHELESS, IF OPIC EXPERIENCED CATASTROPHIC LOSSES IN CERTAIN COUNTRIES OF CONCENTRATION, IT WOULD BE REQUIRED TO GO

TO THE CONGRESS TO OBTAIN FUNDS TO SATISFY LIABILITIES, SINCE OPIC'S INSURANCE RESERVE AND UNRESTRICTED RETAINED EARNINGS (ABOUT \$150 MILLION AT DECEMBER 31, 1972) ARE MUCH LESS THAN THE POTENTIAL LIABILITY IN THESE COUNTRIES.

EXAMPLES OF OTHER OPIC EFFORTS TO SHARE OR MINIMIZE ITS RISK HAVE INCLUDED:

- A REINSURANCE CONTRACT WITH THE LLOYDS INSURANCE GROUP OF LONDON WHICH PROVIDES COVERAGE OF 50 PERCENT OF OPIC'S CURRENT EXPROPRIATION INSURANCE, UP TO A MAXIMUM LIABILITY OF \$14 MILLION PER COUNTRY. THE REINSURANCE APPLIES IN ALL COUNTRIES WHERE OPIC HAS, OR CURRENTLY OFFERS, EXPROPRIATION COVERAGE EXCEPT CHILE. THE ESTIMATED TOTAL AMOUNT OF REINSURANCE COVERAGE IS \$410 MILLION.
- REVISIONS IN THE STANDARD CONTRACT FOR LOAN INVESTMENTS IN DECEMBER 1972 TO INCORPORATE

SEVERAL CHANGES OF A RISK MANAGEMENT NATURE WHICH SIGNIFICANTLY ALTERED THE NATURE AND DEGREE OF COVERAGE, AND INCREASED THE DEGREE OF COINSURANCE BORNE BY THE PROJECT INVESTORS.

--A FLEXIBLE FEE SCHEDULE WHICH RECOGNIZED THE DEGREE OF RISK AMONG INSURED INVESTMENTS.

OPIC RECEIVES AND ANALYZES VARIOUS REPORTS, CORRESPONDENCE AND EVALUATIONS OF ECONOMIC AND POLITICAL CONDITIONS IN HOST COUNTRIES IN ORDER TO ASSESS THE POLITICAL RISK IN COUNTRIES WHERE THERE ARE CURRENT OR IMPENDING POLITICAL PROBLEMS WHICH COULD AFFECT OPIC'S PROGRAMS.

OPIC'S ASSESSMENTS OF POLITICAL RISK HAVE FORMED THE BASIS FOR DECISIONS TO SUSPEND OR TERMINATE THE INSURANCE PROGRAM IN SOME COUNTRIES. IN MOST CASES, HOWEVER, OPIC FOLLOWS THE LEAD OF THE STATE DEPARTMENT, SUSPENDING OR TERMINATING OPERATIONS IN CONNECTION WITH A GENERAL FOREIGN

ASSISTANCE CUTOFF OR TERMINATION OF DIPLOMATIC RELATIONS,
SUCH ACTION PREVENTS ISSUING NEW INSURANCE BUT DOES NOT
AFFECT EXISTING CONTRACTS.

MONITORING PROJECT RESULTS

UNTIL RECENTLY EFFORTS TO MONITOR INSURED PROJECTS SO
AS TO BETTER DETERMINE THEIR EFFECT, IF ANY, ON UNITED STATES
INTERESTS, THEIR DEVELOPMENTAL EFFECT ON HOST COUNTRIES, AND
WHETHER THE PROJECTS WERE BEING ADMINISTERED IN COMPLIANCE
WITH STATUTORY AND POLICY REQUIREMENTS WERE LIMITED. COMPARA-
TIVELY FEW VISITS HAD BEEN MADE, AND COUNTRIES IN THE FAR EAST
OR COUNTRIES WITH MAJOR INSURANCE CONCENTRATION HAD NOT BEEN
INCLUDED. THE REPORTS ON OPIC VISITS THAT WERE MADE IN MANY
INSTANCES DID NOT DISCLOSE EFFECTS ON UNITED STATES INTERESTS
NOR INFORMATION RELATING TO PROJECT EXPORTS TO THE UNITED
STATES AND DISPLACEMENT OF U. S. TRADE. COVERAGE OF THE DEVEL-
OPMENTAL EFFECTS ON THE HOST COUNTRY WAS MORE COMPLETE.

OPIC HAS RECOGNIZED THE NEED TO EXPAND ITS MONITORING EFFORTS FOR INSURED PROJECTS, AND IN APRIL 1973 ANNOUNCED PLANS TO INCREASE ITS MONITORING EFFORTS. DESIGNATED LARGE OR SENSITIVE PROJECTS ARE TO BE VISITED ABOUT ONCE EVERY 18 MONTHS; HOWEVER, THE NEW PLANS DO NOT MAKE PROVISION FOR A REPRESENTATIVE SELECTION OF OTHER PROJECTS.

IF PROJECT REVIEWS DISCLOSE A PATTERN OR PROJECT RESULTS NOT IN ACCORD WITH OPIC OBJECTIVES, WE BELIEVE MONITORING EFFORTS SHOULD BE EXTENDED TO PROVIDE SOME COVERAGE OF SMALLER PROJECTS. ANY EVIDENCE THAT INDICATES THAT INVESTORS' INSURANCE APPLICATIONS CONTAINED SUBSTANTIAL MISREPRESENTATIONS WOULD NEED TO BE ANALYZED TO DETERMINE WHETHER TERMINATION OF THE INSURANCE COVERAGE WAS WARRANTED.

CLAIM SETTLEMENTS

IN ORDER NOT TO JEOPARDIZE ADMINISTRATIVE DUE PROCESS IN THE RESOLUTION OF OPIC'S PENDING CLAIMS, GAO DID NOT HAVE DIRECT

ACCESS TO THE FILES OF OPEN CLAIMS AND THOSE IN WHICH ARBITRATION WAS PENDING. OPIC PROVIDED FORMAL CORRESPONDENCE BETWEEN OPIC AND CLAIMANTS IN REGARD TO SUCH CASES ON A SELECTIVE BASIS TO THE EXTENT IT DID NOT DISCLOSE OPIC'S NEGOTIATING POSITION. INFORMATION CONCERNING THE COMPLIANCE WITH SPECIFIC CONTRACT PROVISIONS OR THE STRENGTHS AND WEAKNESSES OF THE GOVERNMENT'S POSITION IN PENDING AND OPEN CLAIMS WAS NOT MADE AVAILABLE. IN NOVEMBER 1972 WE INFORMED THE SUBCOMMITTEE STAFF THAT WE WOULD NOT BE ABLE TO RESPOND TO SPECIFIC QUESTIONS ON THESE CLAIMS, WHICH INCLUDE THE CLAIM OF THE INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATIONS FOR ITS PROPERTIES IN CHILE. OPIC DENIED THIS CLAIM ON APRIL 9, 1973, AND THE MATTERS IN DISPUTE WILL BE SETTLED BY ARBITRATION IN ACCORDANCE WITH RULES OF THE AMERICAN ARBITRATION ASSOCIATION.

THE INCIDENCE OF CLAIMS IS LARGELY OF RECENT ORIGIN; THE AGENCY FOR INTERNATIONAL DEVELOPMENT, OPIC'S PREDECESSOR

AGENCY, HAD ONLY PAID 10 CLAIMS TOTALING \$3.8 MILLION DURING THE PERIOD FROM 1961 TO JANUARY 1971. OPIC AS OF MARCH 31, 1973, HAS PAID \$19.4 MILLION ON 14 CLAIMS.

IN ADDITION, OPIC AS OF MARCH 31, 1973, HAD AGREED TO FOUR ADDITIONAL SETTLEMENTS OF CLAIMS WITH GUARANTEES OF ABOUT \$101 MILLION.

OUR REPORT TO THE SUBCOMMITTEE CONTAINS A SCHEDULE OF THE OPIC CLAIM SETTLEMENTS. ADDITIONAL INFORMATION ON CLAIMS AGAINST OPIC IS CONTAINED IN OUR REPORT TO THE CONGRESS WHICH WAS MENTIONED PREVIOUSLY.

INSURANCE FOR PROJECTS THAT EXPORT
PRIMARILY TO THE UNITED STATES

WE ALSO NOTED DURING OUR REVIEW THAT OPIC'S INSURANCE COVERAGE FOR INVESTMENTS IN THE ELECTRONIC INDUSTRY INCLUDED A HIGH PERCENTAGE OF PROJECTS THAT PRIMARILY EXPORTED TO THE UNITED STATES. OTHER INDUSTRY AREAS APPEARED TO INCLUDE A

SMALLER PERCENTAGE OF PROJECTS WHICH PRIMARILY EXPORT TO THE UNITED STATES.

DATA SUBMITTED BY APPLICANTS WITH AN INDICATED HIGH PERCENTAGE OF EXPORTS TO THE UNITED STATES SHOWED THAT THE DOLLAR OUTFLOW FROM THE UNITED STATES WAS ABOUT FOUR TIMES GREATER THAN THE COMBINED TOTAL OF ANNUAL PROCUREMENT FROM THE UNITED STATES PLUS ANNUAL DOLLAR RETURNS TO THE UNITED STATES (PRINCIPAL AND INTEREST REPAYMENTS, DIVIDENDS, ROYALTIES, ETC.). THIS BALANCE OF PAYMENTS LOSS MAY TO SOME EXTENT BE OFFSET BY THE DEVELOPING COUNTRIES USE OF THE DOLLARS FOR INCREMENTAL IMPORT OF COMMODITIES FROM THE UNITED STATES.

IN MARCH 1972 OPIC INITIATED NEW AND MORE STRINGENT PROCEDURES TO DETERMINE THE EFFECTS OF OPIC ASSISTED INVESTMENTS ON THE U. S. ECONOMY. ALTHOUGH OUR REVIEW DISCLOSED THAT OPIC'S FILES ON EARLIER CASES CONTAINED LIMITED INFORMATION CONCERNING EFFECT ON U. S. INTERESTS, WE BELIEVE THAT THE MORE RECENT

PROCEDURES, IF PROPERLY IMPLEMENTED, SHOULD PROVIDE REASONABLE ASSURANCE THAT U. S. INTERESTS ARE PROTECTED.

MR. CHAIRMAN, THIS CONCLUDES MY STATEMENT. WE SHALL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU OR OTHER MEMBERS OF THIS SUBCOMMITTEE MAY HAVE.